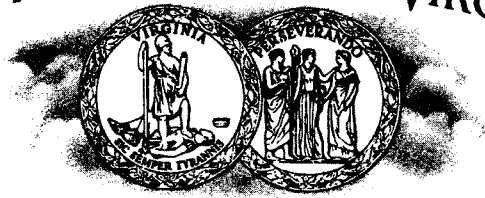


EXAMINATION REPORT
of
PATRICK COUNTY FARMERS MUTUAL
INSURANCE COMPANY
OF VIRGINIA, INCORPORATED
Meadows of Dan, Virginia
as of
December 31, 2007

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/division/boi>

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Patrick County Farmers Mutual Insurance Company of Virginia, Incorporated as of December 31, 2007, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 17th day of July, 2008

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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FIDELITY BOND AND OTHER INSURANCE

The Company had a fidelity bond in force for \$50,000 providing coverage against dishonest acts of the officers as of December 31, 2007. The Company also has content and liability insurance coverage.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a mutual assessment property and casualty insurer and operates in the counties of Carroll, Floyd, Franklin, Henry and Patrick and also in the city of Martinsville, Virginia.

Applications for insurance are solicited by the secretary-treasurer of the Company, who also functions as the sole general agent. If approved after review by two directors, a perpetual policy is issued covering the hazards of fire, lightning and wind. An annual premium ranging from \$0.45 to \$1.01 per \$100 of insurance is charged, according to its risk classification. Each policy issued is subject to a minimum annual premium of \$10.00 for maintaining the insurance in force. The maximum risk accepted is the lesser of \$25,000 or three-fourths of the actual cash value. Except for livestock, the Company is not liable for the first \$200 of damage on the insured property.

Insured property is classified in one of nine categories and assessments are levied annually beginning in January of each year. If a policy is issued subsequent to January, the assessment is prorated to the end of the year.

Losses are investigated by one or more directors who report their findings to the secretary-treasurer. The president and the secretary-treasurer, after reviewing the investigation, will then authorize a claims disbursement. Minor claims may be settled by the president and secretary-treasurer in the absence of an investigation by other directors. Directors are compensated \$50, plus a mileage allowance, for each loss investigated.

GROWTH OF THE COMPANY

The following data, obtained from the Company's Annual Statements filed with the Bureau and from examination reports, indicate the growth of the Company during the ten year period ending December 31, 2007:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>			
1998	\$271,436	\$1,725	\$269,711			
1999	285,691	0	285,691			
2000	314,127	221	313,906			
2001	336,667	836	335,831			
2002	361,027	839	360,188			
2003	365,336	2,772	362,564			
2004	383,571	1,671	381,900			
2005	404,112	21,084	383,028			
2006	411,284	1,913	409,371			
2007	394,478	14,598	379,880			

<u>Year</u>	<u>Net Assessments Received</u>	<u>Investment Income</u>	<u>Net Losses Paid</u>	<u>Number of Policies</u>	<u>Insurance In-force</u>
1998	\$39,637	\$13,524	\$2,764	429	\$5,117,624
1999	41,913	14,171	8,480	404	5,549,674
2000	42,941	14,378	0	386	5,641,800
2001	40,937	13,270	527	365	5,393,700
2002	41,630	14,454	540	361	5,546,200
2003	41,609	9,504	15,258	340	5,310,300
2004	41,075	9,324	1,769	329	5,181,050
2005	38,478	12,694	455	314	4,850,650
2006	36,814	15,122	19,800	287	5,045,974
2007	33,039	16,500	35,472	268	4,619,798

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2006 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet had a medium or low risk assessment as determined from the principles of the risk-based examination procedures contained in the National Association of Insurance Commissioners *Examiners' Handbook*. Analytical review procedures were applied to non-material items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

- History
- Management and Control
- Territory and Plan of Operation
- Fidelity Bond and Other Insurance
- Conflict of Interest
- Growth of the Company
- Accounts and Records
- Financial Statements

FINANCIAL STATEMENTS

There follows a statement of income and disbursements for the period under review and a statement of financial condition as of December 31, 2007.

INCOME FOR PERIOD UNDER REVIEW

	<u>2006</u>	<u>2007</u>
Net assessments received	\$36,814	\$33,039
Interest on cash deposits	15,122	16,500
Reconciling amounts	<u>2,839</u>	<u>2,730</u>
Total income	\$54,775	\$52,269
Deduct total disbursements	<u>52,105</u>	<u>66,602</u>
Net income	\$2,670	(\$14,333)
Add ledger assets December 31, previous year	<u>403,500</u>	<u>406,170</u>
Ledger assets December 31, current year	<u><u>\$406,170</u></u>	<u><u>\$391,837</u></u>

DISBURSEMENTS FOR PERIOD UNDER REVIEW

	<u>2006</u>	<u>2007</u>
Net losses paid	\$19,800	\$35,472
Commission and brokerage	676	308
Gross salaries	20,000	20,000
Directors' fees	300	250
Travel and travel items	43	37
Boards, bureaus and associations	200	200
Legal and auditing, not in connection with losses	229	
Rent, office and equipment maintenance	2,519	2,500
Advertising	345	115
Printing and stationery		45
Postage, telephone and express	1,484	1,352
Insurance and fidelity bonds	902	402
Miscellaneous	282	96
Taxes, licenses and fees	736	1,373
Payroll items	<u>4,589</u>	<u>4,452</u>
Total disbursements	<u><u>\$52,105</u></u>	<u><u>\$66,602</u></u>

ASSETS

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash in office	\$168			\$168
Cash on deposit	391,669			391,669
Interest due and accrued on cash deposits		2,641		2,641
Total assets	<u>\$391,837</u>	<u>\$2,641</u>	<u>\$0</u>	<u>\$394,478</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Net unpaid losses	\$12,800
Payroll items due or accrued	138
Other expenses	402
Taxes, licenses and fees	<u>1,258</u>
Total liabilities	\$14,598
Excess of admitted assets over liabilities (surplus)	<u>379,880</u>
Total liabilities and surplus	<u>\$394,478</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION**Accounts and Records**

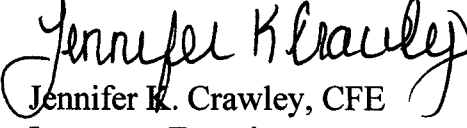
1. During a review of the 2007 Annual Statement, the Examiners' noted that the amount of the Company's insurance in force was incorrectly reported in the General Interrogatories. The Examiners recommend that the Company ensure that future filings with the Bureau are correctly reported. This is the second consecutive examination in which this recommendation appears.

CONCLUSION

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Mario A. Cuellar, CFE of the Bureau participated in the work of the examination.

Respectfully submitted,


Jennifer K. Crawley, CFE
Insurance Examiner

Steven W. Wood, Vice President
Meadows of Dan, VA 24120
Telephone: (540) 593-2003

W. Gurney Royall II
Meadows of Dan, VA 24120
Telephone (276) 952-2795

Pamela B. Royall, Agent
Secretary/Treasurer
Meadows of Dan, VA 24120
Telephone: (276) 952-2795

Margaret S. Barkly, Bookkeeper
Meadows of Dan, VA 24120
Telephone: (276) 952-2476

**THE PATRICK COUNTY FARMERS
MUTUAL INSURANCE COMPANY
OF VIRGINIA, INCORPORATED**

General Office
Telephone: (276) 952-2055
P.O. Box 798
Meadows of Dan, VA 24120-0798

July 7, 2008

Bureau of Insurance
David H. Smith, CFE, CPA, CPCU
P.O. Box 1157
Richmond, VA 23218

Attention: Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner

RE: Code of Virginia 38.2-1320.1


Dear Mr. Smith,

The company upon receiving and reviewing the recommendations of the examiners will correct the general interrogatories in the annual report.

The company will need nine (9) copies for the nine directors of the report.

The company wish to thank the examiners and help during the audit.

Sincerely,


W. Gurney Royall II
President

08 JUL -9 AM 8:19
BUREAU OF INSURANCE
COMMISSION